MASSACHUSETTS
Public Employee Retirement Administration Commission
5 Middlesex Avenue, 3rd Floor
Somerville, MA 02145
(617) 666-4446
Fax: (617) 628-4002
www.state.ma.us/PERAC

M E M O R A N D U M

TO: All Retirement Boards

FROM: Robert A. Dennis, Investment Director

RE: Target Rate of Return

DATE: March 15, 2001

The Public Employee Retirement Administration Commission is in the process of collecting the data for the financial profiles of the retirement boards to be included in this agency's 2000 Annual Report.

Toward this end, we ask for your assistance once again in providing us with your board's Actuarial Assumed Rate of Return and the Target Investment Rate of Return. As previously noted, the two numbers may differ since the Actuarial Rate is calculated as the annual investment return necessary to amortize a system's unfunded pension liability over a specified period while the Target Rate is calculated by considering a system's current asset allocation and the projected rate of return attributed to each asset class. As noted in the Fundamentals of Asset Allocation report issued last year (available on the Investment Unit page of the PERAC website), the historical annual rate of return on US stocks since 1926 is slightly above 11% and that of high grade bonds is about 5.5%. Using these assumptions, a system having an asset allocation of 55% US stocks and 45% bonds would have a Target Return of 8.53% (.11 x .55 + .055 x .45 = .0853). It is reasonable that systems using investment consultants may be advised to use different projected asset class returns.

Retirement System   _____

System Actuarial Rate of Return Assumption   _____

Target Investment Rate of Return   _____

Please mail the completed form to this office or fax it to (617) 628-4414 by April 2, 2001.

If you have any questions, please call me at (617) 666-4446 ext. 922. Thank you for your cooperation.